

M E M O R A N D U M

TO: All Department and School Fiscal Officers

FROM: Trisha L. Neely, Director

DATE: January 14, 2003

SUBJECT: COST RECOVERY INITIATIVE

The Department of Finance has adopted a “best practice” used by many progressive corporations and governments to recover over-payments to vendors. In this process, a third party vendor is contracted to identify and recover over-payments to other vendors and is compensated with a percentage of the recoveries. Wal-Mart, General Motors, the Department of Defense, the General Services Administration and the States of Oregon and Missouri are all successfully using this process. PRG-Schultz International, Inc., a world leader in payment recovery, has been contracted to conduct a Post Payment Recovery Review for Fiscal Years 2001 – 2003 and to provide recommendations for improving processes to reduce over-payments in the future. As part of this contract, PRG-Schultz will assist us in recovering whatever overpayments are identified.

What types of overpayments do we expect to recover? We will focus primarily on errors such as duplicate payments of the same invoice, mathematical errors, and failure to apply prompt payment discounts. We do not believe that any of these errors are common; our expectation is a recovery of well under 1%. However, given the magnitude of the state’s spending, this has the potential to recover a significant amount of cash.

As a general rule, Appropriated Special Funds, Non-Appropriated Special Funds, Capital Funds and Local School Funds that are recovered will be returned to the same source of funds in the organization that made the original disbursement. General Fund recoveries will be recognized as miscellaneous revenue and will be retained at the statewide level.

The initial phase of the PRG-Schultz review will consist of two major activities, a Vendor Statement Review and a Contractual and Disbursement Review.

The Vendor Statement review begins with an approved statement letter being sent to all State of Delaware vendors that meet certain pre-determined criteria. Vendors will respond to the letter by submitting a statement of account or aged trial balance, which includes both open credits and debits. These statements are reviewed and all outstanding credits investigated. The vendors will be asked to refund credits that have remained open on their books for more than 90 days.

For the Contractual and Disbursement review, PRG-Schultz will identify and document potential claims by comparing contracts and other documentation (procurement files, contract notes, Purchase Orders, etc.) to State of Delaware payment data. PRG-Schultz seeks to identify overpayments in the following areas: duplicate payments, erroneous payments, pricing errors, missed discounts, unrecorded purchase returns, unused deposits, debit balances, real estate lease transaction overpayments and any other area that will create an economic benefit to The State of Delaware. These claims will be documented and presented to the Division of Accounting for approval to proceed. Once approved, the claim is then sent to the vendor for review and validation. Once vendor validation is received, the vendor will be requested to refund the overpayment(s).

PRG Schultz representatives may need to contact State organizations to gain information on disbursements. Since most of the recovery information will be provided to PRG-Schultz through DFMS and the procurement card system, we have been assured there will be minimal disruption to staff in other organizations. The success of this endeavor is dependant upon cooperation from all levels of State government, and your cooperation is appreciated.

If you or any of your vendors have questions or concerns, please contact Gary Bish at (302) 744-1074 or by email at gary.bish@state.de.us.